

# IEG ICR Review

Independent Evaluation Group

1. Project Data :		Date Posted : 05/02/2012	
<b>Country:</b>	Malawi		
	<b>Is this Review for a Programmatic Series?</b>	<input checked="" type="radio"/> Yes <input type="radio"/> No	
	<b>How many operations were planned for the series?</b>	3	
	<b>How many were approved?</b>	3	
<b>Series ID:</b>	S117238		
<b>First Project ID :</b>	P099313	<b>Appraisal</b>	<b>Actual</b>
<b>Project Name :</b>	Mw-prsc-1	<b>Project Costs (US\$M):</b>	20.00 20.00
<b>L/C Number:</b>	CH333	<b>Loan/Credit (US\$M):</b>	20.00 20.00
<b>Sector Board :</b>	Economic Policy	<b>Cofinancing (US\$M):</b>	
<b>Cofinanciers :</b>		<b>Board Approval Date :</b>	11/03/2007
		<b>Closing Date :</b>	06/30/2008 06/30/2008
<b>Sector(s):</b>	Central government administration (29%); Agro-industry marketing and trade (29%); Law and justice (14%); General agriculture fishing and forestry sector (14%); Petrochemicals and fertilizers (14%)		
<b>Theme(s):</b>	Rural markets (33% - P); Rural policies and institutions (17% - S); Administrative and civil service reform (17% - S); Legal institutions for a market economy (17% - S); Public expenditure; financial management and procurement (16% - S)		
<b>Second Project ID :</b>	P107303	<b>Appraisal</b>	<b>Actual</b>
<b>Project Name :</b>	Malawi Poverty Reduction Support Credit 2	<b>Project Costs (US\$M):</b>	30.00 30.00
<b>L/C Number:</b>	CH480	<b>Loan/Credit (US\$M):</b>	30.00 30.00
<b>Sector Board :</b>	Economic Policy	<b>Cofinancing (US\$M):</b>	
		<b>Board Approval Date :</b>	05/28/2009
<b>Cofinanciers :</b>		<b>Closing Date :</b>	06/30/2010 06/30/2010
<b>Sector(s):</b>	Central government administration (53%), General agriculture fishing and forestry sector (13%), Petrochemicals and fertilizers (13%), Agro-industry marketing and trade (13%), Law and justice (8%)		
<b>Theme(s):</b>	Rural markets (29% - P), Public expenditure, financial management and procurement (29% - P), Legal institutions for a market economy (14% - S), Administrative and civil service reform (14%), Debt management and fiscal sustainability (14% - S)		
<b>Third Project ID :</b>	P117238	<b>Appraisal</b>	<b>Actual</b>
<b>Project Name :</b>	Malawi: Poverty Reduction Support Credit 3	<b>Project Costs (US\$M):</b>	35.60 35.60
<b>L/C Number:</b>		<b>Loan/Credit (US\$M):</b>	35.60 35.60
<b>Sector Board :</b>	Economic Policy	<b>Cofinancing (US\$M):</b>	
		<b>Board Approval Date :</b>	06/08/2010
<b>Cofinanciers :</b>		<b>Closing Date :</b>	05/31/2011 05/31/2011
<b>Sector(s):</b>	Central government administration (56%), Crops (33%), General industry and trade sector (11%)		
<b>Theme(s):</b>	Public expenditure, financial management and procurement (45%), Rural markets (22%),		

Social safety nets (11%), Regulation and competition policy (11%), Administrative and civil service reform (11%)

<b>Evaluator :</b>	<b>Panel Reviewer :</b>	<b>ICR Review Coordinator :</b>	<b>Group:</b>
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## 2. Project Objectives and Components:

### a. Objectives:

The Poverty Reduction Support Grants (PRSGs) are a series of three annual programmatic development policy operations (DPOs) whose overarching objective is to support the achievement of the country's medium-term development objectives of accelerating growth while at the same time ensuring that the vulnerable are adequately protected from shocks as outlined in the Malawi Growth and Development Strategy (MGDS) (PRSG-1 Program Document, pg. 22; PRSG-2 Program Document, pg. 22/23; and PRSG-3 Program Document, pg. 19). It is therefore expected that at the end of the programmatic series, the PRSGs will have contributed towards increased economic growth and poverty reduction by supporting implementation of policy and institutional reforms that will lead to increased agricultural productivity, increased private sector investment, improved household resilience to shocks, and sustained improvement in fiscal management .

The DPO series was designed to support the four main components of the government's MGDS, namely (1) improving the functioning of agricultural markets, (2) improving the business climate, (3) dealing with vulnerability to shocks, and (4) improving economic governance. Each PRSG was designed to support government actions in some or all of the four components .

The program development objectives (PDOs) of PRSG-1 were to support actions already undertaken by the government in three of the four components of its program, namely improving the functioning of agricultural markets, improving the business climate, and improving economic governance (PRSG-1 Program Document, pg. 26).

The PDOs of PRSG-2 were to support reforms in all four components of the government's program, specifically to deepen maize and fertilizer markets, continue improvements in the business environment, address the vulnerability of poor households to shocks, and continue improvement in economic governance with regard to the budget process, debt and payroll management and systems of accountability in public financial management (PRSG-2 Program Document, pg. 22).

The PDOs of PRSG-3 were to support reforms in all four components of the government's program, specifically to improve the functioning of agricultural input and output markets as well as manage weather risks, continue improvement in the business environment, address the vulnerability of poor households to shocks, and continue improvements in economic governance (PRSG-3 Program Document, pg. 18).

### b. If this is a single DPL operation (not part of a series), were the project objectives/ key associated outcome targets revised during implementation?

No

### c. Policy Areas:

The PRSG series covered four main policy areas :

**1. Improving the functioning of agricultural markets** : The focus of the DPO series in this area was on improving the functioning of agricultural output markets for maize and tobacco and of input markets for fertilizer and land . At the end of the program period, the expectation was that agricultural output markets would be available in rural areas, private sector operators in produce marketing would increase in urban and semi -urban areas, the pass-through of border prices to tobacco farmers would be increased, a better targeted, more cost effective, and sustainable fertilizer subsidy program would be in place, and there would be an increase in cultivated land .

PRSG-1 focused on: (1) the strategic refocus of Agricultural Development and Marketing Corporation (ADMARC) by starting to wind down non-core business interests (i.e., share in Manica, Clark Cotton, Alexander Forbes, and Sugar Corporation of Malawi) held through ADMARC Investment Holding Company (AIHC); (2) the establishment of three satellite tobacco auction floors; (3) implementation of a targeted fertilizer and seed subsidy program with 28% private sector participation in fertilizer distribution; and (4) the strengthening of

capacity at the local level to collect land rent through the recruitment and deployment of 24 District land Officers and 55 Land Clerks.

PRSG-2 focused on: (1) the enhancement of private sector participation in maize markets through the establishment of the Malawi Agricultural Warehousing and Trading company (MAWTCO) and the initial transfer of six warehouses from ADMARC to MAWTCO; and (2) commencement of a performance assessment by the government to evaluate public and private sector involvement in wholesale and retail trade of subsidized fertilizer based on four agreed performance indicators (quality of product sold, quality of service provided, additional services offered, and other related issues).

PRSG-3 focused on: (1) the implementation of a macro weather insurance scheme to improve the predictability of maize markets and complement physical storage of maize stocks and (2) the preparation and publication of a medium-term action plan for the Farm Input Subsidy Program (FISP) in consultation with fertilizer and seed associations.

**2. Improving the business climate** : The focus of the DPO series was on supporting the government's broad program of "second generation" reforms to improve the domestic business environment with a view to stimulating private sector investment and employment creation. In particular, the series supported government efforts aimed at improving the business legal and regulatory environment. At the end of the program period, the expectation was that the number of businesses starting up would increase which would, in turn, increase the share of private sector investment in GDP. It was also envisaged at the onset of the PRSG series that increasing energy supply and provision could be a focus of future DPOs, if preparation of a sound financial viability plan for the Electricity Supply Commission of Malawi was completed as envisaged. However, this sub-component was not pursued in the subsequent DPOs.

PRSG-1 focused on improving the legal and regulatory environment through the establishment of a Commercial Division of the High Court—rules of procedure for the court were reviewed and gazetted, premises were secured, and four judges were appointed—thereby setting the foundation for the impact of this reform to be felt and monitored during the subsequent operations in the series. PRSG-2 focused on improving the business legal and regulatory environment by reducing the length of time it takes to settle commercial disputes to 290 days or less. Finally, PRSG-3 focused on the completion of an audit of pending Higher Court cases of commercial nature for possible transfer to the newly created Commercial Court. This was on account of the backlog of commercial cases that were still pending at the General Division of the High Court as the Commercial Court had only been hearing new cases.

**3. Dealing with vulnerability to shocks** : The focus of the DPO series was initially on improving coordination and coverage of social protection programs and improving the national response to climatic shocks. However, although the sub-component on climatic shocks was discussed in general in the initial Program Document for PRSG-1, there were no specific measures supported and it was removed altogether from the subsequent DPOs in the series. At the end of the program period, the expectation was that households' resilience to shocks would be improved through greater coordination and coverage of social protection programs and that this rationalization would lead to increased government funding of the programs.

PRSG-1 did not focus on any specific measures regarding this component except to indicate the triggers that were being put forward for PRSG-2 and indicatively for PRSG-3. PRSG-2 focused on strengthening the targeting of the fertilizer subsidy program through introduction and implementation of improved guidelines for targeting for the 2008/09 season. This was expected to lead to a more transparent targeting process than in previous years, with other community leaders (beyond local leaders) to be involved in the process and the list of beneficiary to be confirmed by members of the community at a public meeting. Finally, PRSG-3 focused on further improving the targeting mechanism by publishing revised guidelines for identification of beneficiaries for the 2009/10 fertilizer subsidy program based on field experiences from implementing the 2008/09 program.

**4. Improving economic governance** : The focus of the DPO series was on supporting the government's efforts aimed at good governance, particularly with regard to improved fiscal management and the fight against corruption. Specifically, the series sought to improve the budget process, the payroll management system, the timeliness and follow-up of external audits of the budget, and debt management. At the end of the program period, the expectations was that there would be improved allocation and expenditure on priority activities identified in the MGDS, that the civil service payroll system would be "clean" and up to date, that there would be a more effective external audit system in place with fewer audit queries and loss of public funds through fraud and theft, and reduced variability between forecast and actual debt service payments.

PRSG-1 focused on the reconciliation of the payroll with the backlog of personnel data and the auditing of government entities representing 50 percent of expenditures for financial year 2004/05. There were no prior

actions in the area of improving the budget process or debt management, as the authorities at that time were reviewing how best to improve the alignment of the budget to the MDGS and of finalizing their draft debt policy . PRSG-2 focused on the introduction of a budget calendar that incorporated all budget -related activities, the undertaking of a review of the Human Resource Management Information system (HRMIS) and personnel audit, the submission to Parliament of the delayed Audit Reports for 2004/05 and 2005/06, the development and approval by Cabinet of a Debt Management Policy . Finally, PRSG-3 focused on the finalization of the revised structure of the budget classification and the associated Chart of Accounts, the undertaking of a procurement review of the FY 2009/10 fertilizer program and commencement of implementation of its key recommendations, ensuring the follow-up on audit queries through the issuance of a Treasury Minute containing responses to issues raised by the Public Accounts Committee, the development of action plans to address weaknesses identified in the HRMIS review and personnel audit, and the operationalization of the Debt Management Committee.

It should be noted that although the above four policy areas were not revised in the programmatic series of DPOs, there were two important modifications . First, the initial focus of the component on reducing vulnerabilities to shocks was on improving (a) the national response to climatic shocks and (b) the government's coordination of social protection programs . Due to budgetary pressures in the wake of the global crisis, the sub-component on social protection was modified in PRSG -2 to focus instead on supporting improved targeting of beneficiaries of the fertilizer subsidy program given that it was the key social protection program in terms of budgetary cost and impact on the poor . Second, although improving energy supply and provision was initially mentioned in PRSG-1 as a sub component under "Improving the Business Climate", there was no specific prior action in that DPO and it was dropped altogether in the remaining operations of the programmatic series .

#### **d. Comments on Project Cost, Financing, Borrower Contribution, and Dates:**

The PRSG series consisted of three successive single tranche operations which disbursed upon effectiveness . PRSG-1 was approved on October 30, 2007 and became effective on November 28, 2007. PRSG-2 was approved on May 28, 2009 and became effective on June 22, 2009. PRSG-3 was approved on June 8, 2010 and became effective on June 21, 2010.

### **3. Relevance of Objectives & Design:**

#### **a. Relevance of Objectives:**

The overarching goal of the DPO series and the PDOs of the individual PRSG operations were consistent with both the government's and the Bank's strategies for the country at closure .

The PRSG series was fully aligned with the government's MGDS, the country's second generation poverty reduction strategy paper covering the five -year period 2006/07-2010/11. The PRSG's policy components were aligned with key government priorities set out in the MGDS, such as well functioning agricultural markets (MGDS Key Priority Area Number 1-Agriculture and Food Security, Sub-Theme 2-Agricultural Productivity), improving the business environment (MGDS Theme 1: Sustainable Economic Growth, Sub-Theme 2: Enabling Environment for Private Sector Led Growth), social protection (MGDS Sub-Theme 1: Protecting the Vulnerable, Strategy 1: Providing efficient and effective support to the most vulnerable ) and improving economic governance (MGDS Theme 5: Improved Governance, Sub-Theme 2: Public Policy Formulation, Fiscal Management, Public Sector Management, and Corruption).

The program was also fully aligned with the Bank's fourth CAS (FY2007-10), which was designed to assist the government achieve four key outcomes : (a) improving smallholder agricultural productivity and integration into agro-processing; (b) putting in place a foundation for long-term economic growth through improved infrastructure and investment climate; (c) reducing vulnerability at the household level to HIV/AIDS and malnutrition; and (d) sustaining improvements in expenditure management, transparency, and accountability . Moreover, the CAS specifically envisaged a series of DPOs for each year over the CAS period .

Finally, the PRSG series was implemented within the harmonized framework for the provision of budget support in Malawi entitled the Common Approach to Budget Support (CABS). The objectives, policy areas, prior actions, and triggers of the PRSG series were jointly identified with the Government in close consultation with CABS ' development partners and the CABS Performance Assessment Framework (PAF) was fully aligned with the program's objectives. **The relevance of objectives was high .**

## b. Relevance of Design:

The PRSG series was designed to support the achievement of the government's development objectives through the implementation of a set of key measures. The selection of key reforms (prior actions) in improving the functioning of agricultural markets, improving the business climate, addressing vulnerability to shocks, and improving economic governance was appropriate and consistent with the MDGS' objectives. Moreover, the selection of specific policy actions benefited from wide consultation within the country. It was prepared after consulting Government ministries and departments on specific reforms that were considered critical to achieving the MDGS goals and objectives.

The Results Framework provided a clear statement of objectives and the casual chain that was linked to the expected final outcomes. The prior actions were appropriate and relevant to the key measures required for achieving the development policy objectives. Moreover, as indicated in the ICR, the program documents appropriately identified that exogenous factors could have a negative impact on certain outcome indicators and would need to be taken into account, including the 2008/09 global food and fertilizer price shocks, as well as hikes in world fertilizer and oil prices and possible weather shocks. **The relevance of design was substantial.**

## 4. Achievement of Objectives (Efficacy):

Efficacy is determined by assessing the achievement of the overarching objective, as well as of the PDOs for each of the individual PRSG operations. The ICR reviewed progress of the 8 PDO indicators identified in PRSG series, as well as progress towards macro-economic stability.

### Overarching objectives

The overarching objectives of the DPO series were to support the government in implementing its MGDS whose aim was to sustain economic growth and reduce poverty. As noted above, the design of the PRSG series was fully aligned with the MGDS and, hence, the set of operations did support the authorities in implementing their strategy. Moreover, the objective of sustaining economic growth was largely achieved, as Malawi continued to register high rates of economic growth (7.3 percent) throughout the program period despite the onset of the global financial crisis and the hikes in world food and fuel prices. The high rates of growth were driven principally by strong performance in the agriculture sector, which arose largely due to good outcomes in the tobacco and maize sectors and were spurred on by the availability of key inputs, including fertilizer. These were all areas that benefited directly from the policies implemented under the PRSG series. The ICR is therefore fair when it says that progress in the four reform areas, especially agriculture, would have likely been slower in the absence of the PRSG series of operations. At the same time, other factors beyond the scope of the program also contributed to the good growth performance, such as good weather. Moreover, slippages in macroeconomic policies and performance at the end of the program period threatened the country's growth prospects going forward.

As regards the poverty reduction objective, it is likely that the program contributed to insulating the poor and most vulnerable from the severe effects of the exogenous shocks that hit the country through the program's focus on agricultural input and output markets and its support for private sector development and social protection. Although the ICR did not substantiate this with evidence, the details can be found in the program documents. For example, "qualitative information from independent monitoring reports show that more poor households are benefiting from the [fertilizer subsidy] program" (PRSG-3 Program Document, pg. 36). At the same time, as the ICR rightly notes, despite these gains, poverty remains deeply entrenched in the country. On balance efficacy in achieving the overarching objective was substantial.

### Objective 1: Improving the Functioning of Agricultural Markets

The PRSG series had four areas of focus regarding achieving the objective of improving the functioning of agricultural markets, including with regard to the tobacco market, maize market, fertilizer market, and land market.

**Tobacco market:** The targeted outcomes were broadly achieved. The goal was to reduce waiting time for sellers, reduce farmers' transport and marketing costs, and improve the overall efficiency of tobacco markets in the country through the establishment of satellite auction floors in outlying markets. Although the M&E framework in the PRSG series did not include indicators for monitoring the impact of the tobacco market reforms, the ICR noted that available statistics indicated that the six newly created satellite auction floors comprised over 12 percent of total annual sales of tobacco in terms of volume and that more smallholder farmers were now able to access the depots, carry out transactions, and reduce the time and cost spent

traveling to the sale points (i.e., transport and other logistical costs declined from 10 US cents per kg to 5 US cents per kg). The ICR also noted that there was anecdotal evidence that congestion and waiting time at the auction sites had been reduced considerably, that the incomes of small holder tobacco farmers had increased in recent years, and that the national food security situation had improved due to higher tobacco production levels and prices. It should be noted, however, that good weather conditions also likely contributed to the good performance. At the same time, as pointed out in the ICR, there remains significant challenges regarding the effective and efficient operation of the satellite stations, including capacity and operational constraints such as inadequate storage infrastructure, security, lack of necessary technology and equipment. In addition, the reforms to operationalize contract farming had progressed slowly such that the indicative trigger regarding this reform was replaced. But, on balance, it is fair to say that the DPO series played a key role in the continuation and sustainability of the ongoing tobacco reform effort.

**Maize market:** The targeted outcomes were partially achieved. The goal was to increase production and productivity in the maize output market through an increased role of the private sector and a reduction in the role of ADMARC. The end of program target for maize yields (1.60 metric tons) was surpassed half-way through the program period (1.78 metric tons) and continued to rise (2.29 metric tons on average for 2008/09-2010/11). However, although the maize output market reforms inevitably played a contributing role, increases in maize production and productivity also benefited from the reforms in the fertilizer input subsidy program. At the end of the DPO series, it is clear that ADMARC no longer maintained the same degree of dominance as it had prior to the reforms. Its operations had shifted focus towards its core function of providing markets where market failures occurred, normally in rural areas. Moreover, six of ADMARC's warehouses were transferred to the newly created warehouse company MAWTCO. In turn, private sector activity in the output market increased during the program period. For example, the indicator on ADMARC markets in urban and semi-urban areas was achieved half-way through the PRGS series. Also, private commodity groups apparently increased their market shares. However, some of the reforms were stalled or reversed. MAWTCO has yet to become fully operational since the appointment of its CEO has been delayed for well over a year. Also, the government increased ADMARC's presence in certain urban markets in the aftermath of the 2008 global food and fuel crisis, and continues to use the parastatal enterprise to purchase maize and distribute inputs. This is in part because the reform program did not have broad-based government buy-in.

**Fertilizer market:** The targeted outcomes were partially achieved. The goal was to increase small-holder productivity through the improved functioning of the fertilizer input market, including a greater role for the private sector. Although the program's M&E framework did not include indicators in this area, various reports (i.e., the 2010/11 Government of Malawi/World Bank joint review of the FISP, UK DFID reports on the FISP, etc.) indicated that all fertilizer under the FISP is now procured through open and competitive tender and that private sector involvement in the importation of subsidized fertilizers had increased (to over 80 percent). Importantly, the ICR credits the FISP with helping poor households cushion themselves against exogenous shocks through the economy-wide effects created by the greater availability and lower cost of key food crops like maize. At the same time, there were delays and reversals in the reform effort. While the private sector participation in fertilizer distribution increased under PRSG-1, it declined during the implementation of PRSG-2 as the government rescinded private sector authorization to distribute subsidized fertilizer following the 2008 food crisis. Similarly, following the hike in world fuel and fertilizer prices in 2011, the government reduced the level of FISP imports in order to contain the budget impact and allocated only 64 percent of the total to the private sector.

**Land market:** The targeted outcome was not achieved. The objective was to increase the area of cultivated land by strengthening the operation of land markets. The government did hire Land Officers and Clerks at the district level under PRSG-1 to support decentralization of land administrative services and increase the collection of land rents with a view to increasing smallholder access to land. However, these officials could not become operation on account of the Cabinet's non-approval of the new land taxation structure, following opposition from smallholder farmers. Instead, the government is undertaking another review of the land rental structure, delaying the reform process. As indicated in the ICR and program documents, it appears that there was a lack of buy-in to the land market reform on account of insufficient consultations with stakeholders.

Efficacy in achieving the first objective is rated modest.

## **Objective 2: Improving the Business Climate :**

The DPO series had two main areas of focus regarding achieving the objective of improving the business climate, including increasing access to commercial justice and improving the business license regime. Together, reforms in these areas were expected to result in an increase in private investment, which rose steadily over the period 2006-2010--averaging 15 percent of GDP and reaching a high of 19.1 percent of GDP in 2009. While there was good progress in implementing all the reform measures envisaged under the DPO series, not all of the end-of-program outcomes were fully achieved.

**Increasing access to commercial justice** : The targeted outcome was broadly achieved . The goal was to reduce the large backlog of commercial cases and to thereby strengthen contract enforcement . There was good progress in improving efficiency in the clearance of commercial disputes following the establishment of the commercial division of the High Court under PRSG-1. The average number of days required to settle a commercial dispute declined from 337 days (2006) to 125 days (2007), well below the target of 290 days set under PRSG-2. This has subsequently declined to 96 days as of September 2010. Moreover, the completion of the case audit at the High Court under PRGS-3 allows the litigating parties to move their case to the commercial court, whose backlog has been substantially reduced .

**Improving the business license regime** : The targeted outcome was partly achieved . The goal was to increase the number of registered businesses through the establishment of a one -stop investment shop for business licensing. To this end, the authorities drafted a revised Malawi Investment and Trade Center (MITC) bill in 2008, which was a trigger for PRSG-3 at the PRSG-2 stage. However, the establishment of the MITC was delayed because of the lack of approval by both the Cabinet and the Parliament, and the trigger was subsequently dropped as Bank staff who realized that it would not achieve the intended objective of establishing the one -stop shop. The ICR also indicated that there had been limited progress introducing a Single Business License . Under the program, the number of days required to obtain a business license and permit was to be reduced from 185 to 30 days by 2012. Although the Ministry of Industry and Trade reported that the number of days had narrowed to 16 days in 2011, the ICR noted that there was really no means for tracking progress . The program's M&E framework included an indicator on the number of business licenses issued per month and the target was to increase licenses issued from the baseline of 60 to 70 by the end of the program period. However, data to track this indicator have been difficult to obtain . The ICR, however, does make reference to the number of days required to start a business as reported in Doing Business, but this worsened from 37 days (2007) to 39 days (2012).

Efficacy in achieving the second objective is rated substantial .

### **Objective 3: Dealing with Vulnerability to Shocks**

The DPO series had three main areas of focus regarding achieving the objective of dealing with vulnerability to shocks, including improving coordination of coverage of the national social protection programs, improving the farm input program, and improving the function of agricultural output markets through a macro weather insurance scheme. The implementation of reforms in this policy area has been modest . The government remains unsure how to proceed with the national social protection reform and, hence, the focus shifted at the PRSG-2 stage to support improvements in a single social protection program, namely, the FISP . However, neither the Results Framework nor the M&E Framework were modified to take this change into account . There was good progress, however, in developing the national weather insurance scheme .

**Improving coordination and coverage of social protection programs** : The original aim of the PRSG series was to support government coordination of its social protection programs through the creation of a Social Protection Unit, the development of a Social Protection Policy, the rationalization of the various existing social protection programs (PRSG-2 indicative target), and the allocation of sufficient budgetary resources for social protection programs in line with the new policy (PRSG-3 indicative target). However, there was a political stalemate as the Cabinet did not approve the draft Social Protection Policy in 2008 nor when it was resubmitted in 2010. As a result, there has been little progress in this reform area . This begs the question as to whether there was sufficient consultation and ownership of the policy reform at the time of program design .

**Improving the Farm Input Subsidy Program** : The aim was to help shield the poor and vulnerable from agricultural-related shocks through improvements in the FISP . The FISP is country's most important social protection program and accounts for over 60 percent of the Ministry of Agriculture's budget. The Government introduced new guidelines to improve the targeting of the fertilizer subsidy program to poorer households in 2008/09 (PRSG-2 prior action) and published revised guidelines for the 2009/10 program based on field experiences from 2008/09 (PRSG-3 prior action). However, as noted above, the DPO series' Results and M&E frameworks were not adjusted to monitor progress in this area . The ICR does makes reference to a UK DFID-financed evaluation report on the FISP, which indicated that there had been improvement in beneficiary targeting, and to the PRSG-3 Program Document, which indicated that there were clear improvements in targeting the poor and vulnerable under the FISP .

**Implementing the National Weather Insurance Scheme** : The aim was to help improve the functioning of agricultural output markets (principally maize) through the development and implementation of a weather insurance scheme. Drawing on the findings of a 2004 Weather-Based Insurance Study, the authorities were originally going to put in place a Repo deal or a Call Option scheme . This prior action for PRSG-3 was

subsequently modified to reflect the fact that these two specific options were no longer relevant to the current circumstances and that weather insurance scheme was the preferred option . This scheme was been in place over the past four years and its premium is funded with assistance from DFID . Moreover, the government's budgeted allocation for the purchase of weather insurance is being reimbursed through a Bank -funded agriculture SWAP.

Efficacy in achieving the third objective is rated modest .

#### **Objective 4: Improving Economic Governance :**

The DPO series had four main areas of focus regarding achieving the objective of improving economic governance, including the budget process, payroll management, external audit and follow up, and debt management.

**Budget process :** The goal of improving the budget process was to reduce the variance between budget and actual expenditure (indicator) by strengthening the alignment with the MDGS and improving the monitoring of budget implementation. During the program series, this was achieved by the introduction of a budget calendar that captured all budgeted activities (PRSG-2 prior action), the finalization of a revised structure of the budget classification and the associated "Chart of Accounts" (PRSG-3 prior action), and the undertaking of a procurement review of fertilizer subsidy program and implementation of its key recommendations (PRSG-3 prior actions). The variance between budgeted and actual expenditure (monitoring indicator) declined from the baseline of 10 percent (2006/07) to 6.8 percent (2009/10). This was higher than the end of program target of 5% set at the beginning of the PRSG series, but was below the 2011 PEFA target of 7.8%. The procurement review of the FISP also contributed to an improved focus on the "value for money" which improved the management of this important budget line item.

**Payroll management :** The goal of improving payroll management was to strengthen control over the payroll and reduce the variance between the budgeted and actual payroll . This was to be achieved through the reconciliation of the payroll with the backlog of personnel data (PRSG-1 prior action), the undertaking of a review of the Human Resource Management Information System (HRMIS) and personnel audit of the civil service (PRSG-2 prior action), and the development of action plans to address weaknesses identified in the HRMIS review and personnel audit (PRSG-3 prior action). At the end of the program, the variance between the budgeted and actual wage bill was 0.2 percent (2010/11), well below the baseline of 5 percent 2004/05 and the program target of 3%. There were also improvements in the identification and elimination of ghost workers from the payroll. For example, in 2010/11, 4,878 ghost workers were purged from the system and another 8,868 possible ghost workers were identified and under review .

**External audit and follow up :** The goal of improving external audit and follow up was to improve the timeliness of the submission of audit reports to Parliament and the follow up of internal and external audit recommendations. This was to be achieved by auditing central government entities representing 50 percent of government expenditures (PRSG-1 prior action), having the delayed audit report for FY 2015/06 submitted to Parliament (PRSG-2 prior action), and following up on audit queries through the issuance of a Treasury Minute containing responses to the issues raised by the Public Accounts Committee (PRSG-3 prior action). At the end of the program period, the number of months between the end of a fiscal year and the submission of the audit report to Parliament declined from the baseline of 24 months (2004/05) to 6 months (2009/10), well below the program target of 10 months. The rollout of the Integrated Financial Management System (IFMIS) at the central government and district council level played a critical role in achieving this outcome . However, a number of transactions continue to take outside the IFMIS . Hence, in order to ensure accurate government financial statement, all transactions will need to be fully captured by IFMIS . Moreover, there are lags of five years in the preparation of Treasury Minutes and the follow up on the audit recommendations remain ineffective due to the non-functioning of the Internal Audit Committee and the backlog of the Public Accounts Committee discussions on audit reports.

**Debt management :** The goal of improving debt management is to ensure public debt sustainability through improved monitoring. This was to be achieved through Cabinet approval of the country 's debt and aid management policy (PRSG-2 prior action) and the operationalization of a debt management committee (PRSG-3 prior action), and measured through a decline in the ratio of the domestic debt to GDP (indicator). The debt management office has begun issuing semi-annual debt reports and conducting in-house debt sustainability analyses. Following good progress on fiscal consolidation on the part of the government, domestic debt declined from the baseline of 20% of GDP (2005/06) to 16.1 percent of GDP at the end of the program period . This is well above the end of program target of 10% of GDP, but was due principally to the onset of the global financial crisis and the related fiscal slippages beginning in 2008/09. However, as noted in the ICR, the program target was far more ambitious than the medium-term target of the Government's macroeconomic program, which called for

reductions in domestic debt of 1.5 percent per annum. Although the debt situation is presently within sustainable thresholds, continued deterioration in the macroeconomic environment could push domestic debt outside these thresholds.

Efficacy in achieving the fourth objective is rated substantial .

### **Macroeconomic policy**

On the macroeconomic front, the DPO series was to support the broad objective of sustained economic growth . The economy remained resilient throughout the program period despite the hikes in world food and fuel prices in 2008 and the onset of the global financial crisis in 2009. During the initial program period, real GDP growth averaged 7.3 percent, largely on account of high growth in the smallholder agriculture sector, following consecutive years of bumper tobacco and maize harvests, good weather, and the availability of fertilizer thanks to the FISP. Inflation remained within single digits due mainly to the government 's prudent fiscal policies, which narrowed the budget deficit to below 3 percent of GDP on average, but also on account of the good weather and bumper harvests.

However, with the onset of the global financial crisis, the country 's current account deficit deteriorated and its fiscal deficit increased, largely due to higher outlays on input subsidies . This, in turn, led to higher domestic borrowing and substantial increase in domestic debt . The fixed exchange rate (the kwacha was pegged to the US dollar) in the face of a loosening of fiscal policy resulted in an overvaluation of the country 's currency, a loss of competitiveness, a worsening in the terms of trade, an increase the overall balance of payments deficit, and a reduction in foreign reserves, which fell to the equivalent of less than one month of imports by end -2009. Following satisfactory completion of an arrangement under the IMF 's Exogenous Shocks Facility in December 2009, the authorities entered into a new medium-term macroeconomic program under the IMF 's Enhanced Credit Facility. This allowed the government to restore its fiscal and external balances and strengthen its reserve position. Over the medium-term, growth was expected to remain robust, inflation moderate, and reserves were to increase to the equivalent of three months of imports .

## **5. Efficiency (not applicable to DPLs):**

## **6. Outcome:**

The moderately satisfactory rating reflects the "high" relevance of the programs' objectives, the "substantial" relevance of the programs' design, and the mixed ("substantial" and "modest") achievements of each of the four development objectives and outcomes .

**a. Outcome Rating :** Moderately Satisfactory

## **7. Rationale for Risk to Development Outcome Rating:**

The risk that the development outcomes overall will not be maintained is significant .

The first area of risk is with regard to exogenous shocks . The continuation of the global financial crisis, hikes in world fuel and food prices, and declines in donor financing risk a further deterioration in the country 's terms of trade and balance of payments and increasing pressure on the budget, thereby jeopardizing the overall program development objectives. Mitigating measures include the recent development of weather insurance mechanisms to help insulate against weather and other agriculture -related shocks. Similarly, a shift in government policy away from a fixed to a more flexible exchange rate arrangement would help improve the terms of trade, competitiveness, economic diversification and, ultimately, growth . Finally, satisfactory implementation of the three-year IMF ECF arrangement would, among other things, strengthen the country 's foreign reserve position and help catalyze donor support and private capital in -flows.

The second area of risk is possible government policy reversals . In terms of macroeconomic policies, continuation of a prudent fiscal and monetary stance along with a more flexible exchange rate regime will be critical to the achievement of the program development objectives . If instead the authorities respond to the pressures arising from global financial crisis and world commodity price shocks by maintaining non -priority spending and accommodating their fiscal deficits with central bank financing, the recent gains in macroeconomic stability could be reversed (and there are already signs that this is happening ). With regard to sector and

structural policies, the greatest risk of policy reversal is in the area of maize and fertilizer sector reforms, as the government has already delayed the operationalization of MAWTCO and permitted ADMARC to have an expanded presence in both of these markets. This risk could be mitigated in part if the government implemented the draft ADMARC Strategy (2010-2015). In contrast, the risk of policy reversals with regard to the tobacco sector, the business climate, and economic management is more moderate, as these reforms are fairly well entrenched, their legal regulatory frameworks well established, and are receiving support from the country's development partners.

The third area of risk is the lack of reliable electricity. This is having a detrimental impact on the productive sectors of the economy and thereby undermining growth. Mitigating measures would be investments in electricity generation and distribution, including the Malawi-Mozambique Interconnector Project, but the government has yet to take sufficient actions on this front. If left unattended, this could undermine the program series' overarching objective of sustainable growth and poverty reduction.

The final area of risk is the government's limited administrative capacity to implement its program in a satisfactory manner. This is a function of both the lack of institutional capacity and coordination amongst the key ministries and agencies involved in program implementation. This capacity is being further challenged by the impact of HIV/AIDS on human capital. Mitigating factors include donor-funded technical assistance and training, implementation of the multi-donor CABS program monitoring framework, and creation of an inter-ministerial steering committee for program monitoring and implementation. There would also need to be further positive developments regarding HIV/AIDS.

**a. Risk to Development Outcome Rating** : Significant

## **8. Assessment of Bank Performance:**

### **a. Quality at entry:**

The quality at entry was **moderately satisfactory**. The program design had strong analytical underpinnings, benefited from the lessons from previous DPOs, and was integrated within the harmonized CABS performance assessment framework. But quality at entry was also impeded by certain offsetting factors.

The preparation of the PRSG series was informed by key analytical studies and reviews. These included sector studies (i.e., the 2004 Malawi Agricultural Policy Options, and the 2006 study on Options for Restructuring ADMARC), poverty and social impact analyses (i.e., the 2004 PSIA on ADMARC reforms, the 2006 Tobacco PSIA, and the 2006 Poverty and Vulnerability Assessment), business climate studies (i.e., the 2006 Investment Climate Assessment, the 2006 Doing Business Country Profile for Malawi, and the 2006 World Bank Doing Business Survey), and public financial management studies (the 2003 Malawi Country Financial Accountability Assessment, the 2004 HIPC AAP Report, the EU's 2005 and 2006 PEFAs, the 2007 Public Expenditure Review, and the 2007 Accounting and Auditing ROSC). These analyses helped Bank staff identify and design the priority policy and institutional reforms to be supported by the programmatic series.

Bank staff incorporated the lessons learned from the most recent DPOs into the design of the PRSG series. The main lesson was the importance of having a well-focused operation with a few key measures across a selective set of policy areas in light of the Government's institutional capacity constraints. Staff consequently designed the PRSG series with only four policy components and a few critical actions and triggers. Another lesson learned was the importance of having well defined triggers. In the past, staff had great difficulty in agreeing with the government on whether a trigger had been met. As a result, staff endeavored in the PRSG series to define prior actions and triggers as clearly as possible. Staff was broadly successful in this regard, although there were probably too many process-oriented prior actions and triggers than outcome-oriented, which should be addressed going forward.

The PRSG series was implemented within the harmonized CABS framework. This greatly facilitated a close and consistent policy dialogue and coordination of budget support and program monitoring between the authorities and its development partners. This also allowed Bank staff to be more selective in choosing the policy areas that would be supported through the PRSG series, as well as the relevant prior actions and triggers, in line with the Good Practice Principles on Conditionality. The prior actions represented only those actions that staff believed were critical for achieving the program's PDO and outcomes. The specific policy and institutional changes were subsequently translated into indicators and targets and were included in the CABS PAF.

Despite the above, quality at entry was compromised by the following two main factors . First the selection of certain reform actions (i.e., maize, fertilizer, and social protection reforms ) could have greatly benefited from a more substantial political economy analysis and effort to ensure sufficient political buy -in. This was particularly important given the problems and policy reversals that were subsequently experienced in program implementation. Second, the design of the M&E framework could have benefited from greater efforts at developing an adequate monitoring system and set of indicators that covered all the policy components in the DPO series. This was particularly important given that the Government 's was unable to generate comprehensive data that could be used to monitor performance and outcome indicators .

**Quality-at-Entry Rating :** Moderately Satisfactory

**b. Quality of supervision:**

The quality of supervision was **satisfactory** . As noted above, the PRGS series was fully integrated into to the CABS performance evaluation framework (PAF). This included a set of indicators and targets that were agreed with government in consultation with key stakeholders . Moreover, the CABS framework allowed for joint reviews of the Government 's performance in meeting the targets contained in the PAF . There were two reviews each year that were strategically linked to the budget cycle . The March review looked at performance in the preceding period and drew lessons for use in preparing the subsequent budget and program. The October review assessed performance during the current period . Bank staff participated in these reviews, as well as in the IMF program reviews .

Equally important, key staff (i.e., the TTL and the core specialists ) was based in Malawi, which allowed for continual monitoring and dialogue with the authorities throughout program implementation . Moreover, the structure of the DPO series itself allowed staff to draw on lessons gleaned during the supervision phase of the previous operation when preparing the subsequent operation . This allowed Bank staff to respond quickly and flexibly when problems arose that could threaten the development outcomes . Such was the case when the decision was taken to shift away from the broader social protection strategy measures to focus instead on the FISP. This was also the case when the decision was taken to include joint procurement reviews of the FISP as a PRSG-3 trigger given that the cost of the subsidy could threaten the PDO .

**Quality of Supervision Rating :** Satisfactory

**Overall Bank Performance Rating :** Moderately Satisfactory

**9. Assessment of Borrower Performance:**

**a. Government Performance:**

The authorities demonstrated full ownership and strong commitment to their program . First, their MGDS built on its predecessor (the 2002 PRSP) and clearly spelt out the country 's development priorities and integrated several new sector strategies and policies, including with regard to land reform, public /private partnerships, and HIV/AIDS. Second, their commitment to the maintenance of prudent macroeconomic policies and to the CABS process created a positive enabling environment for implementing the PRGS series . Third, government performance in strengthening capacity and economic governance, particularly with regard to fiscal and public financial management systems, was quite strong . Finally, the authorities included all key stakeholders (i.e., representatives from the private sector, civil society, development partners, and the general public) in the design, implementation, and monitoring of the MGDS .

At the same time, there were critical shortcomings in government performance . First, the authorities included critical agriculture and social protection reforms in their program without having sufficient buy -in from across the government, which impeded implementation. Second, policy reversals, particularly with regard to the development of a national social protection policy and the role of ADMARC in the maize and fertilizer sector, undermined the government 's credibility. Third, the government 's institutional capacity constraints impeded

its ability to manage program implementation across a wide set of issues, which also impeded implementation. Last, the MDGS's monitoring and evaluation (M&E) system did not generate sufficiently comprehensive data and information for monitoring performance and outcome indicators in its results framework, and would have benefited from even wider public participation and enhanced coordination between the government and stakeholders .

**Government Performance Rating :** Moderately Satisfactory

**b. Implementing Agency Performance:**

**Implementing Agency Performance Rating :** Not Applicable

**Overall Borrower Performance Rating :** Moderately Satisfactory

**10. M&E Design, Implementation, & Utilization:**

**a. M&E Design:**

Monitoring and evaluation of the MGDS was coordinated by the M&E Division in the Ministry of Economic Planning and Development. The implementation of an M&E master plan and road map has wide support from international, regional, and bilateral partners . Program monitoring also took place through the CABS review framework, which included the Bank. The authorities have put in place a system of data collection for use in monitoring the implementation of the MGDS. However, weaknesses in this area have prevented the generation of data and other information that are comprehensive enough for assessing the PAF indicators, including the subset of indicators used for evaluating performance under the PRGS series of operations .

**b. M&E Implementation:**

M&E implementation was impeded by the limitations in M&E design . The authorities' inability to generate data that could be used in assessing PAF indicators undermined program monitoring and evaluation . In addition, while the PAF included a set of prior actions, triggers, and related targets, it did not include monitoring indicators. Hence, program monitoring was done on the basis of achieving targets for prior actions rather than on assessing the broader development impact . This was done in the context of the February /March CABS review which involved a comprehensive assessment of performance against the program targets .

**c. M&E Utilization:**

The September/October CABS review assesses budget implementation during the first half of the year and makes recommendations during the preparation of the subsequent budget, while the February /March review attempts to draw lessons from overall program implementation to feed into recommendations on subsequent budget operations. Similarly, the conclusions of the assessment of performance during the supervision of a particular operation in the PRGS series is used in the preparation of the subsequent operation, thereby allowing flexible responses to actual circumstances and changing conditions .

**M&E Quality Rating :** Modest

**11. Other Issues**

**a. Safeguards:**

The ICR did not mention any safeguard issues nor do there appear to be any safeguard -related issues. Bank staff assessed the environmental impact of the PRSG program using the DPL toolkit . The assessment indicated that the PRSG-supported reforms in tobacco marketing could potentially place significant pressure on the environment (i.e., greater use of firewood, further loss of forest, increase pressure on existing forest resources ). It also identified measures that the government was putting in place to mitigate the potential negative effects, including replanting and rehabilitating 150,000 hectares of softwood and 50,000 hectares of hardwood timber . Moreover, the PRSG program is no longer supporting reforms in tobacco . Staff also reviewed the possible impact of PRSG-supported reforms in ADMARC, agricultural marketing, increased fertilizer use, and improving the cost of doing business, but found that the negative environment impacts of these reforms were likely to be minimal.

**b. Fiduciary Compliance:**

The ICR did not mention any outstanding fiduciary issues nor do there appear to be any apparent issues regarding fiduciary compliance. The program documents, however, indicated that Bank staff were satisfied that the public finance management system was satisfactory to support the PRSG series of operations, although weaknesses remained. The main weaknesses were with regard to external auditing (particularly the timely submission and follow up of audit reports to Parliament), effectiveness of payroll controls, and public access to key information. Under the MGDS, however, the Government has taken steps to clear the audit backlog, conduct an HRMIS review and payroll audit, enhance the independence of the Auditor General’s office, and create a unit dedicated to coordinating PFM implementation and to preparing a road map for next steps . With regard to procurement, the Government has approved a Public Procurement Act based on international procurement standards, established an Office of Public Procurement with supervisory oversight responsibilities . Finally, the government has implemented measures aimed at increasing the transparency of the budget execution process and requires all key ministries to prepare procurement plans as part of the budget preparation process .

**c. Unintended Impacts (positive or negative):**

The ICR did not mention any unintended impacts nor do there appear to be any apparent unintended impacts . The design of the PRSG series benefited from an assessment of the possible poverty and social impact of the policy and institutional reforms under consideration . These included the 2004 PSIA on ADMARC reforms, the 2006 Tobacco PSIA, and the 2006 Poverty and Vulnerability Assessment . The reform of ADMARC involved the retrenchment of a large number of staff, but careful attention was paid to the development of an appropriate severance package for retrenched staff . In addition, mistakes in rationalizing the operation could result in some rural areas neither being served by ADMARC or the private sector .

**d. Other:**

<b>12. Ratings :</b>	<b>ICR</b>	<b>IEG Review</b>	<b>Reason for Disagreement /Comments</b>
<b>Outcome:</b>	Moderately Satisfactory	Moderately Satisfactory	
<b>Risk to Development Outcome:</b>	Significant	Significant	
<b>Bank Performance :</b>	Moderately Satisfactory	Moderately Satisfactory	
<b>Borrower Performance :</b>	Moderately Satisfactory	Moderately Satisfactory	
<b>Quality of ICR :</b>		Satisfactory	

**NOTES:**

- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1,

2006.

- The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

### 13. Lessons:

The ICR highlighted six key lessons learned from the implementation of the PRSG series that are appropriate, noteworthy, and should inform the preparation of future DPOs .

1. The *importance of government ownership*. Key institutional reforms in agriculture and social protection were not implemented because of a lack of buy-in across the government .
2. The *need to assess the political economy of sensitive reforms*. The political economy dimensions of certain key reforms under the PRSG series (i.e., maize marketing, fertilizer subsidy, and social protection ) were underestimated. As result, progress in implementation in these areas was slow and policy reversals occurred .
3. There is *merit in working within a harmonized framework*. CABS provided the authorities and Bank staff with a harmonized framework for the provision of budget support that also enhanced the quality of policy dialogue across donors and provided political leverage for good governance .
4. *Flexibility in the program assessment framework* should be encouraged . It is difficult to foresee all the relevant issues and internal/external developments at the beginning of a DPO series .
5. A *robust and flexible M&E framework* is important for tracking progress in PDOs . The MGDS M&E framework did not generate sufficiently comprehensive information for monitoring outcome indicators, particularly regarding tobacco market, fertilizer market, and commercial justice reforms .
6. The *bar for policy reform should be set sufficiently high* enough to mobilize change while avoiding overly ambitious and complex measures . An important lesson learned from earlier DPOs was that programs should be focused given existing institutional capacity constraints .

14. Assessment Recommended?  Yes  No

### 15. Comments on Quality of ICR:

The ICR was comprehensive and its tone candid . It made a good case for the importance of ownership and buy-in to the authorities' program, as well as of alignment of CAS and PRSG series to the MDGS . It also comprehensively assessed the program objectives, policies, and targets, while underscoring the weaknesses in the M&E system. It underscored the mistakes that Bank staff made in underestimating the importance of taking political economy considerations into account in the design, development, and implementation of politically sensitive social and structural reforms in order to minimize the risk of policy reversals, program changes, and shortfalls in achieving the program objectives . The ICR could have been more streamlined in its presentation and avoided repetition and redundancies . Moreover, it could have integrated the discussion of the program 's performance and M&E indicators into a more holistic presentation that allowed the reader to see the link between inputs, outputs, outcomes and the achievement of the overall PDOs .

**a. Quality of ICR Rating :** Satisfactory